There have been a lot of discussions on asset classes as we've hit higher inflation for the first time in years, including equities, bonds, and cash. We also look at how long you are investing for.

Bonds

Bonds have been traditional safe havens forming a part of most multi-asset portfolios for many years. But for the last year or so returns have been negative. This table shows why high interest rates mean negative bond prices (even though dividends could still be reasonable). Central bank rate rises look to have peaked with both the Fed and BOE stopping rises on better economic data, so we can expect bonds to move back to decent and then good returns. Note the 2nd column from the left should read 5.5%, not 5%.

Bonds rise as interest rates fall.

We expect to see bonds perform well as inflation and interest rates fall.

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Where we are now: Bond Index as of 15/08/2023	
Duration Index	8.9
Sterling Gilts Index Yield	4.65%
UK 10Y Gilt Yield	4.42%

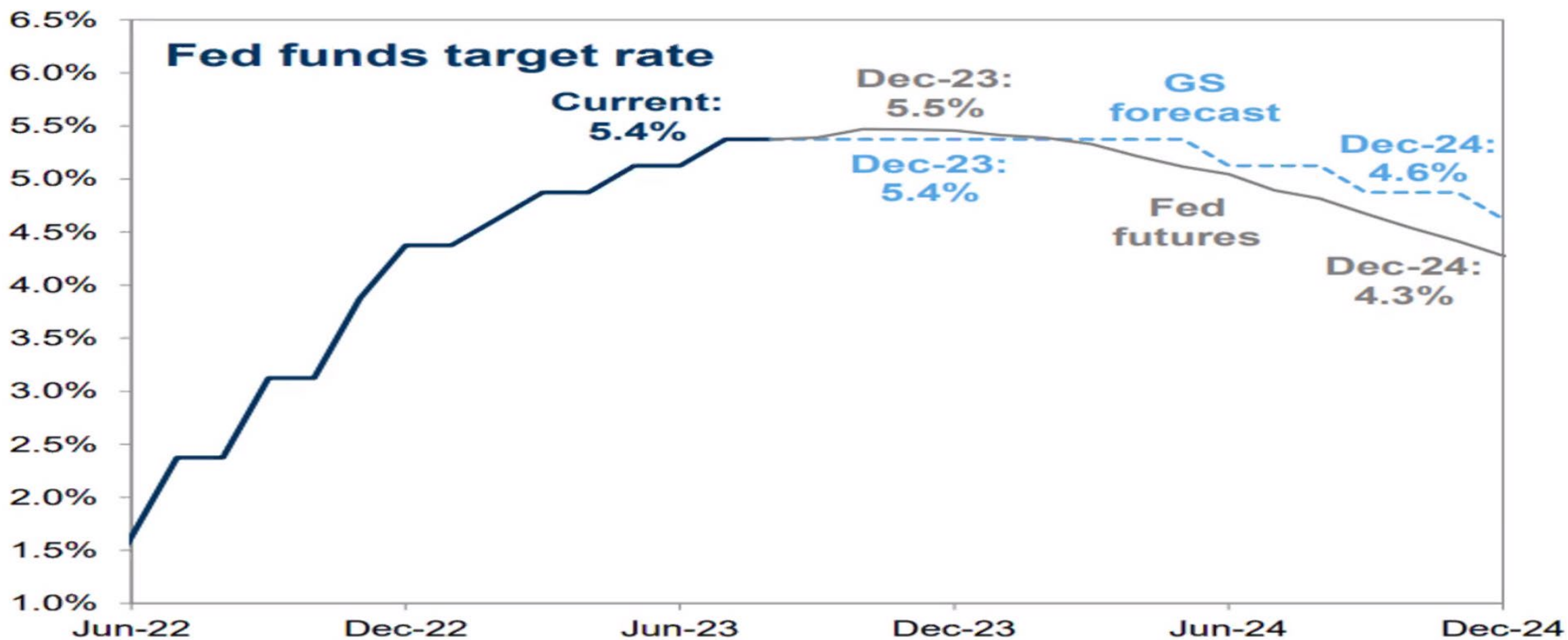
The forecast for the index's total return for the next 12 months as 10yr UK Gilt yields decline (%)

10yr UK Gilt Scenarios	6.0%	5.0%	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	1.5%	1.0%	0.5%	0.0%
10yr UK Gilt Potential Returns	-9.39%	-4.94%	-0.49%	3.96%	8.41%	12.86%	17.31%	21.76%	26.21%	30.66%	35.11%	39.56%	44.01%

The current BOE base rate has been kept at 5.25%. A base rate drop of only 1% should see bonds making good progress again. Goldman Sachs is predicting rates to fall in both the US and UK over the next year as inflation comes under control.

Interest rates are peaking in developed markets.

Markets expect interest rates to begin falling in 2024.



Cash

You should always have some money in cash to cover emergencies before investing. Cash saving rates are more attractive now than they have been in many years, but there is one thing that is guaranteed by investing in cash and that is your return will be less than inflation. Disinvesting and moving to cash is both short-term thinking and risky in itself. To avoid losing long term, you then need to reinvest, but when and where? Timing the market is notoriously difficult, even for the most qualified expert investment managers. If you invested regularly over the last 20 years, even if you had the worst market timing, you would have had a return of 60% more than cash.

Equities

History shows us that investing in equities over the long term produces by far the best results over any other asset class. A structured portfolio reduces risk by spreading assets and actively managing them. As an example, the Eurostox index over the last 10 years returned 8.21% pa, and this was a zone under great pressure.

Long Term

We all have our own view of what's long term and when we need cash. Generally, we look at our working life as a time of accumulating wealth and our retirement as a time of spending it. But just how long with that be? Below is a table showing the percentage of current 65-year-olds have of surviving to 80 and 90, broken down to men, women and couples (meaning one or other survives).

Putting long-term goals into perspective

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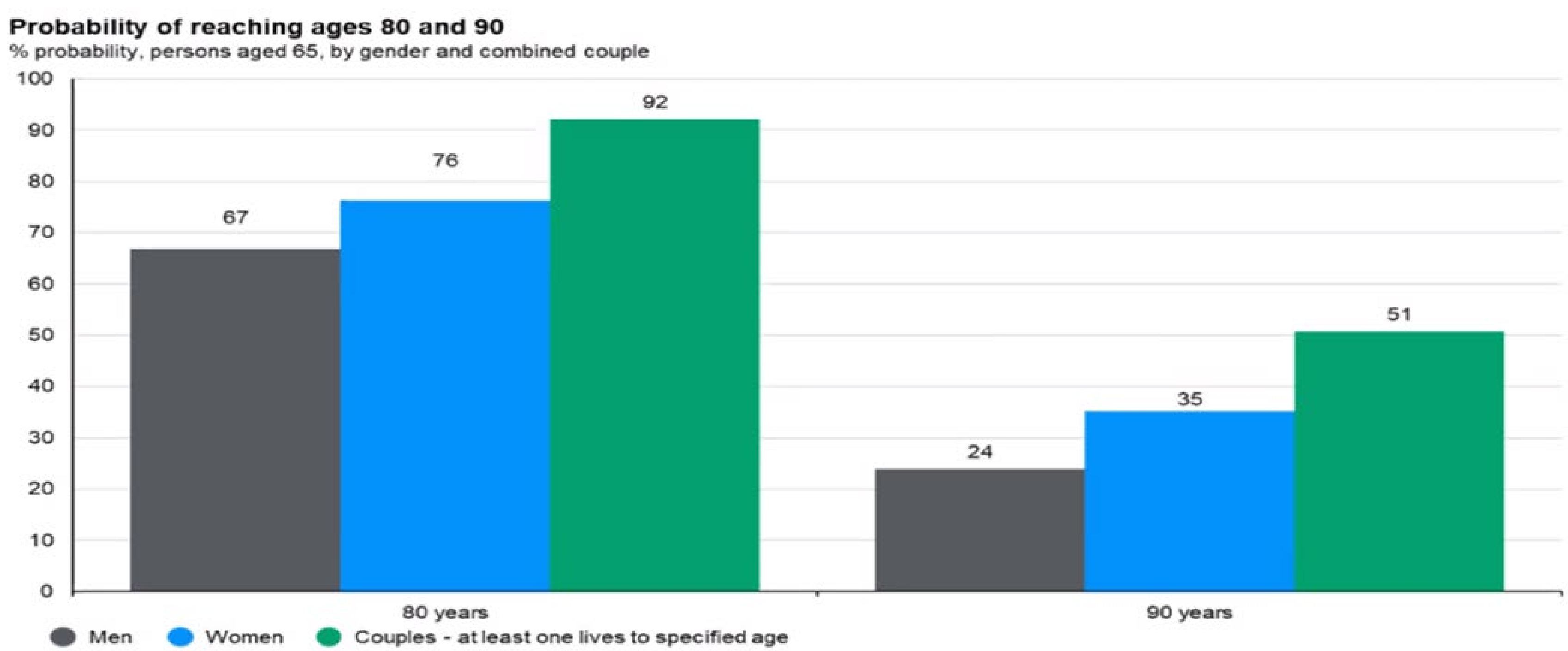

You are not going to retire and spend everything straight away. You can see a woman has a 76% chance of surviving the following 15 years. You need to fund your retirement over the long term and so continue to invest for the future even if you are in the process of spending some of your assets.

Any questions of if you'd like to discuss further, do let us know.

Referrals
We work on referrals, so if you would like more details or feel this information would be interesting to someone else, please do introduce us.

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